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ABSTRACT

A study was done by the Advisory Committee on Student Financial Assistance to determine specific legislative, regulatory or administrative sources of complexity and burden in student loan programs under Part B of the Higher Education Act of 1965 and to recommend enhancements that will have positive effects on loan delivery and collection systems for those programs. The study arose out of Congressional concern that the Part B programs have become too costly for the federal government and too complex to those receiving funds or administering the programs. The study gathered information through three regional hearings, a solicitation of the community for comment on preliminary findings, site visits, a symposium to discuss strategies, and a hearing on final recommendations. In order to synthesize the information gathered from the hearings, the study developed an analytical framework to clearly delineate sources of complexity. Six fundamental sources emerged: (1) multiple, overlapping loan programs; (2) conflicting terms and conditions among programs; (3) burdensome legislative and regulatory requirements; (4) inconsistent lender and guarantor policies; (5) nonstandard processes and forms; and (6) inadequate data and network infrastructure. The report details the findings concerning the effects of each of these complexity sources on students and schools. Five appendixes contain data on student loan commitments, borrower patterns, program interest rates, annual loan limits by program, and deferment categories. (JB)

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STUDENT LOAN PROGRAM SIMPLIFICATION STUDY

SOURCES OF COMPLEXITY: PRELIMINARY FINDINGS

Advisory Committee

On

Student Financial Assistance

IAE026442

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January 1993

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INTRODUCTION

The Higher Education Amendments of 1992 require the Advisory Committee on Student Financial Assistance to conduct "a thorough study of means of simplifying all aspects of the loan programs under Part B" of the Higher Education Act of 1965, and to present a report on its findings by July 23, 1993. These programs are called Federal Family Education Loans and include the Federal Stafford, SLS, PLUS and Consolidation Loan Programs. The loan programs have become a cornerstone of most financial aid packages. The phenomenal growth in the program since its inception is illustrated in Appendix A in terms of dollar growth increase in number of loans.

At a minimum, the Committee has been asked to:

- assess the paperwork burden experienced by financial aid officers within the structure of the programs;
- explore opportunities for simplification and standardization of forms, procedures and all other aspects of guaranty operations for purposes of exchange with the Department of Education, its proposed National Student Loan Data Base and other agencies;
- examine the potential for simplification of the bank repayment process to minimize borrower confusion; and
- determine strategies for efficient utilization of loan programs to minimize multiple program borrowing in postsecondary education.

The request for this study arose out of congressional concern that the Part B programs, which are a major source of assistance for many students, have become too costly for the federal government and too complex to those receiving funds or administering the programs. While reauthorization took steps to increase access to loan funds through creation of an unsubsidized loan program and the higher loan limits, standardization of loan documentation, and simplification of the lending process for borrowers, it fell short of remedying all the problems plaguing the loan programs.

The Committee's primary task is to isolate specific legislative, regulatory or administrative sources of complexity and burden and to recommend enhancements that will have positive effects on loan delivery and collection systems.

In designing the study, the Advisory Committee chose a multifaceted approach to examining the sources of complexity in the Part B programs. Six activities were selected to incorporate a broad spectrum of input from the community:

- three regional hearings, where the Committee would accept testimony from participants in the student loan program on perceived areas of program burden and complexity;
- a solicitation of the community for comment on preliminary findings;
- site visits to determine the feasibility of implementing proposed recommendations;
- a symposium to discuss strategies and implementation of simplification initiatives;
- a hearing focusing on the Committee's final recommendations; and
- a final report to be submitted to Congress.

To date, the Committee has completed the three hearings, which were held in Breckenridge, Colorado (September 1992), Washington, D.C. (October 1992) and Seattle, Washington (November 1992). The Committee heard over 20 hours of testimony and collected over 500 pages of submitted written comments from students, financial aid officers, lenders, loan servicers, secondary market representatives and guarantors.

In order to synthesize the information gathered from the hearings, the Committee developed an analytical framework to clearly delineate sources of complexity. The Committee was exclusively interested in tracking effects on students and schools. For

the purpose of the study, three phases of the life of a loan were identified:

- the origination phase (including all application, certification, entrance counseling and disbursement activities);
- the interim phase (including enrollment verification, exit counseling, and grace period activities); and
- the repayment phase (including deferment/forbearance, collection, and post-default activities).

The Committee decided to examine the identified populations and loan phases in relation to sources of complexity and solutions for the identified burden.

SOURCES OF COMPLEXITY

Upon completion of the hearings, the Committee began organizing the information provided by the witnesses. Six fundamental sources of complexity emerged:

- multiple, overlapping loan programs;
- conflicting terms and conditions among programs;
- burdensome legislative and regulatory requirements;
- inconsistent lender and guarantor policies;
- nonstandard processes and forms; and
- inadequate data and network infrastructure.

The following pages detail the findings of the Committee concerning the effects on students and schools in each phase.

Multiple, Overlapping Loan Programs

Until reauthorization, the U.S. Department of Education administered five federal loan programs, each with its own annual and cumulative loan limits. The Higher Education

Amendments created a sixth program to expand access for middle-income students, a non-subsidized Stafford Loan. All of these programs target very similar populations and none are mutually exclusive. Loan limits and relatively high costs of education, often force students to borrow from more than one loan program. The exception is the new PLUS Loan that will soon allow parent borrowers to obtain up to the cost of education.

Since individual programs have been unable to meet the student's total financial need, many undergraduate students must borrow from three or more programs each academic year. Graduate and professional students frequently borrow from six or more programs to meet their high tuition costs. While Congress significantly increased loan limits for the Title IV programs during reauthorization, the new levels are not sufficient to reduce dependence on multiple programs. Appendix B shows the percentages of Stafford borrowers who concurrently borrowed from the other Part B programs in 1991. As demonstrated by this chart, there is significant overlap between the Stafford (a need-based program) and SLS borrowers, indicating that a high percentage of financially needy students are forced to borrow from both programs to meet their educational costs.

In addition to the Title IV programs, the Department of Health and Human Services offers student loans under Titles VII and VIII for students in specific disciplines. Other professional schools operate private loan programs for their students, such as the Law Access Loan Program offered by many law schools. As students increasingly receive loans from a combination of programs, they are confronted with the management of repaying multiple loans. In addition, the schools are challenged with the task of appropriately certifying and tracking many individual programs.

Effects on Students

Students must deal with multiple applications, promissory notes and disbursement vehicles as a result of the multiple programs. This increases the time required to obtain loan funds. Tracking and updating loans are also difficult and time consuming for students. Numerous repayment schedules with few consolidation options become unmanageable.

Origination Phase: Multiple programs require borrowers to read, comprehend and legally negotiate separate applications and promissory notes for each loan. In addition, loan funds must be delivered in separate, multiple disbursements, each requiring personal endorsement on either a check or electronic funds transfer authorization statement. Further, different lenders or servicing agents may be disbursing the loan funds. As a result, a student receiving subsidized and unsubsidized Stafford, Perkins and SLS loans spends an enormous amount of time negotiating each check.

Interim Phase: Students must track each of their loans to update each holder--or its servicer--of their location and school status. As a result, students must often notify numerous, separate entities of each change in employment, address or enrollment status. Default claims may result when borrowers forget to notify every holder and the servicer is unable to locate them.

Repayment Phase: Failure to complete separate deferment forms for each loan may result in a loan erroneously being placed in repayment status. Borrowers may subsequently default even though they are still enrolled in school. Multiple loan programs also result in multiple repayment schedules, multiple minimum monthly payments and numerous coupon books to manage. Students with multiple loans can apply for Federal Consolidation Loans. However, the added cost to obtain the loan,

loss of deferments and increased interest rates on some of the loans consolidated have made this program undesirable to many borrowers.

Effects on Schools

Multiple and overlapping loan programs result in administrative and cost burdens for schools. For example, financial aid administrators are affected by the same factors as students, amplified by the number of applications they must process for each program. In addition to processing multiple applications, they must offer accurate loan counseling information, and record and track hundreds of disbursements. The workload extends beyond the financial aid office, increasing staff time requirements in the Bursar's and Registrar's Offices as well. Tracking and updating student status is another major task. Completion of individual deferment forms for each borrower in each program increases staff workload and personnel costs.

Origination Phase: The school must coordinate loan applications for all programs to assure that students meet the qualifications and properly execute the necessary paperwork. Once the applications have been certified and submitted, school personnel are responsible for providing pre-loan counseling materials to all students receiving loan funds. Counseling sessions often involve hundreds of students at one time, participants having different combinations of loans. The overlapping components of the programs make this task more difficult, since the school's staff must assure that students are aware of their obligations under each program.

Once the loans have been processed and funds disbursed, the Bursar's Office must record disbursements and assure proper delivery of funds. School administrative costs multiply with the number of loan checks.

Interim Phase: The Registrar's Office must process status verification forms in a timely fashion for each agency guaranteeing loans at the school. The more loan programs administered by the institution, the more forms to be processed. The workload and administrative costs clearly increase with multiple programs.

Repayment Phase: The school must certify deferment forms for each loan of each student requesting deferment, thus increasing paperwork and administrative costs. During the repayment phase, the school must also react to inquiries from multiple parties on the status or location of the borrower. The existence of multiple loan programs exaggerates the difficulty of this task, as well as increasing the paperwork and staff-time burden for the schools.

Conflicting Terms and Conditions

The variation in terms and conditions creates dizzying confusion for students and aid administrators. With five different Part B programs and one Part E program, the same number of interest rates would be expected. Instead, there are fourteen possible interest rates (Appendix C) driven by borrower loan history, along with twenty-two possible annual loan limits (Appendix D) determined by the student's year in school and length of program. Fourteen different categories of deferments exist (Appendix E). Reauthorization did streamline the number of deferments available and moved all interest rates in the Part B programs to a variable scale (although the rates are still not identical). This will not correct the problem for borrowers with existing loans, since these terms apply only to new borrowers.

There is no consistency in the criteria used to establish interest rates and deferment applicability. For example, Stafford interest rates are based on either periods of enrollment or first disbursement dates, but PLUS/SLS interest rates are determined only by disbursement dates. Deferment determination dates do not coincide with the

interest rate time frames. Aside from disparities in interest rates and deferments, fee deductions from gross loan proceeds are not standard and can vary by hundreds of dollars. These fees even differ between subsidized and unsubsidized Stafford loans for the same borrower. Further, repayment terms among the programs are not compatible.

Effects on Students

Annual loan amounts, net loan proceeds, interest rates, deferment applicability and repayment terms vary widely in both categories. Counseling materials are inadequate due to the inconsistencies across the programs in terms of eligibilty criteria and other terms and conditions.

Origination Phase: Students are aware of program inconsistencies which create the perception that all students are not treated equally. For example, the interest rates and deferment terms for first-time borrowers will likely differ from those of borrowers who obtained their first loans several years ago. In addition, guarantors charge significantly different guarantee fees. In fact, a student who changes guarantors from one year to the next or who has a subsidized and unsubsidized Stafford loan will notice a difference in his or her net loan amount of up to $250 because the fees across guarantor are not the same.

Interim Phase: Some loans qualify for grace periods while others do not, leaving students confused about their repayment commencement dates. While this information is usually covered in exit interviews held by the school, the amount of information necessary to fully explain the terms and conditions of each of the student's loans is too massive for easy comprehension. Communication with the lender is emphasized as critical in the counseling sessions but is virtually nonexistent during the interim period.

Repayment Phase: Students with prior loans are confronted with widely varying categories of deferment, categories which were streamlined for new borrowers in the Higher Education Amendments of 1992. Due to confusion which arises over eligibility, students may fail to apply for a viable deferment and consequently default.

Effects on Schools

In addition to administrative and cost burdens, institutional liability can also result from conflicting terms and conditions. Financial aid administrators certify application loan amounts that differ from student-to-student based on annual and cumulative loan limits. Increasingly, they must rely on resources outside of their own offices for such certifications, increasing administrative and personnel costs and the potential for institutional liability. Since interest rates and deferment qualifications vary widely, required loan counseling materials can become complex and costly to produce. Should inaccurate or insufficient information be provided to the students and a default result, the school may place its own eligibility to participate in the Part B programs in jeopardy.

Origination Phase: School financial aid administrators complete hundreds of applications on which they must certify that students do not exceed either annual or cumulative loan limits for any of the programs. In order to do this, the office staff must first interact with the school's Registrar to ascertain the academic program length and grade level for each borrower. Then, either the Registrar's or Admissions Office must provide information about the student's prior enrollment at other institutions to verify the receipt of the appropriate financial aid transcripts, which provide information on students cumulative loan amounts and refund or default information. The costs of administrative staff time increases within the university that is not highly automated or which does not have an integrated centralized data base. In addition, costs associated with the processing of a large number of financial aid transcripts can be significant.

Further, there is institutional liability for failure to collect the needed information to prevent an overaward.

Interim Phase: The cost of producing adequate counseling information can be prohibitive. For this reason, many schools rely on lenders and guaranty agencies to supply materials. Faced with their own financial difficulties, some lenders and guarantors have stopped this practice, again leaving schools to produce their own materials.

Limited personnel is also an issue. Since few schools have adequate staff to offer individualized counseling sessions, written material must address all possible interest rate and deferment category combinations. As a result, these publications become unmanageable and too lengthy to be useful to the borrower.

Repayment Phase: The school may lose its ability to award loans due to the default rates of its students, which may be affected by inconsistent terms and conditions across programs. Some lenders freely approve forbearance for borrowers experiencing temporary financial difficulties, while others will not approve any such requests, contributing to default in some cases. Some schools have lost their Part B eligibility because one student over the established acceptable cohort rate defaulted. Upon examination of claim files, school representatives have frequently found cases in which students qualify for deferments, but did not understand the terms of the loan. This misunderstanding can cost schools millions of dollars in aid should their eligibility to participate in the program fail to be reinstated.

Burdensome Legislative and Regulatory Requirements

Attempts by the Department of Education and Congress to control defaults and program costs have led to many time-consuming and costly statutory and regulatory

requirements being placed on students and schools. Congress has created a cumbersome process for determining eligibility for unsubsidized loans, mandated a costly system for disbursement of loan funds, and increased loan limits without making needed changes in the repayment period. The Department of Education has issued regulations that dictate burdensome and time-consuming disbursement and documentation requirements, fail to differentiate among schools, and regulate the collection procedures creating a rigid, and some contend, ineffective collection vehicle. Many believe that the rigidity of the regulatory environment creates incentives to follow regulatory procedures rather than improve loan collections.

Effects on Students

Students face a time-consuming application process, delayed delivery of funds, responsibility for updates of multiple parties on demographic information, and an inflexible repayment and collection system which creates disincentives as a result of burdensome legislation and regulations.

Origination Phase: Students confront an application process that can span three to four months. While an SLS or unsubsidized Stafford Loan has no financial need component, determination of Stafford eligibility is a prerequisite for SLS approval; thus, even for a non-need based loan, a six-week (or more) delay may result. Once the loan applications have been approved and the disbursements prepared, regulations mandate that there be a 30-day delay in delivery of loan proceeds to first-time borrowers. Student fees at most institutions are usually due within the first 14 days of enrollment, causing severe cash flow difficulties for students who are unable to pay their fees or living expense costs. While most institutions make allowances (and, due to new legislation, will be prohibited from charging late fees or canceling enrollment due to this mandated delay), landlords and utility companies are unlikely to be as accommodating.

Once the check or electronic funds transfer is available to the borrower, the student must personally endorse either the check or borrower authorization statement. Students spend considerable time standing in lines at the Bursar's Office in order to sign each document. Since regulations require all Stafford and SLS loans to be multiply disbursed, students must repeat this process each quarter or semester. Recent informal guidance from the Department of Education suggests that subsidized and unsubsized Stafford checks may even have to be disbursed separately.

Interim Phase: Students are responsible for updating their lenders regarding demographic or status changes. Until recently, the Department had prohibited updating loan information from new application data, forcing students to complete many unnecessary additional forms and creating a significant delay in lenders' correction of records.

Repayment Phase: Legislative changes have significantly increased the loan limits in all of the student loan programs without increasing the allotted ten years to repay the proceeds. This has created a situation in which borrowers will have difficulty managing monthly payments. While holders must now offer income-contingent or graduated repayment schedules, default may be merely postponed, not avoided, since "balloon" payments or significantly increased monthly payments will be required to meet the ten-year limit. Consolidation is an option; however it is costly, time consuming and difficult to arrange for many borrowers.

Regulatory due diligence requirements for holders of student loans mandate collection procedures from the number and content of letters or phone calls that lenders must make to the timing of those contacts. These rules leave very little opportunity for consideration of individual circumstances. For example, a student's loan may lapse into default because due diligence requirements do not allow an extension to collect

necessary documentation of status or similar information. Failure of a student to file a change of address form with the lender may have the same result, due to strict regulations regarding skip-tracing procedures.

However, when a student can demonstrate that a default was based on faulty data, the regulations do not require the holder to repurchase a defaulted loan and place in repayment if the lender met the "due diligence" requirements. In fact, there is no incentive for holders to repurchase loans once claim payments have been received. Students credit histories are severely damaged and unnecessary default claims are paid by the federal government.

Effects on Schools

Schools must deal with a lengthy application certification process, the potential need to cover student bills while awaiting loan funds, and the imposition of procedural requirements regardless of their institutional default rates, and the responsibility for updating of multiple entities. In addition, schools are subject to an increased potential for liability and unreasonable demands on staff as a result of burdensome legislative or regulatory requirements.

Origination Phase: A disproportionate amount of staff time is spent in the certification and disbursement of student loans. The school is responsible for compliance with what is perceived as overwhelming, continual changes in the origination certification requirements, such as eligibility criteria, disbursement date specification, and borrower certifications. Some institutions have experienced three-month certification delays (or more) due to all the mandated regulatory procedures. To accommodate those requirements, schools hire temporary help to assist during peak loan processing which increases the chances for certification errors. Errors can lead to even greater delays in receipt of loan proceeds and potential financial liability for the schools.

Legislative and regulatory requirements also significantly increase the administrative costs of the institution's Bursar's and Registrar's Office. The Bursar's Office is typically responsible for handling the student accounts, including the receipt, recording disbursement and (if necessary) return of student loan checks. Furthermore, new statutes require that all PLUS loan checks be made co-payable and regulations require that these checks be sent to the school and then forwarded to borrowers. The resulting increase in administrative costs is twofold: original checks must be mailed to the borrowers, then cashed when returned with endorsement; and checks for funds in excess of student fees must be prepared and mailed to the parent. In addition, the Registrar's Office requires more staff time to verify enrollment status twice--once prior to the check being mailed to the parent borrower for signature and again when the endorsed check is returned. This new PLUS loan requirement will increase institutional costs for carrying unpaid student balances, adding to the cost of the 30-delay of disbursement for other loans.

The regulations treat all schools the same, regardless of default rate. As a result, all schools must comply with requirements that are aimed at a specific population or correct a perceived shortcoming. For example, the 30-day delay in disbursement was intended to limit losses from borrowers who withdraw within the first month of enrollment. At many private four-year institutions, this may happen to less than one percent of their financial aid recipients; yet, they are not exempted from this requirement.

Interim Phase: Schools must deal with numerous reporting requirements specified in regulation. Schools have to complete burdensome reports within a required 30-day time frame. Those reports are required to be completed at least twice a year, if not more frequently, significantly increasing the personnel costs of the Registrar's Office.

Repayment Phase: The repayment phase also increases paperwork for the schools. The completion of multiple deferment forms for the same student by the Registrar's Office is extremely time consuming and repetitive, adding to personnel costs. Since completion of deferment forms are not the primary purpose of this office, the processing of deferment forms creates major delays, potentially adding to defaults.

Inconsistent Guarantor and Lender Policies

Although Congress created a national Federal Family Education Loan Program, policies and procedures vary among the 46 guaranty agencies and thousands of lenders participating in the student loan programs. Each is free to create its own unique policies to accommodate the various situations that arise during the life of the loan. The result is separate, sometimes incompatible policies for program operation with disparate definitions and reporting requirements.

The mobility of today's students and the fact that most schools deal with geographically diverse student populations often lead students to use several guarantors and lenders. A school must be current on all pertinent policies and procedures for each guarantor and lender utilized by its students. Individual guarantor policies are communicated through massive policy manuals provided to their client schools and lenders, covering such topics as process definitions, loan frequency, application requirements, check handling requirements, and reporting specifications. Lenders have less latitude in creating policies, but still differ in eligibility criteria, disbursement options and reporting requirements. These policies are inconsistent and, in many cases, incompatible with each other. This creates student perceptions of arbitrary, inequitable treatment and contributes to specific administrative problems for schools.

Effects on Students

Students indicate the loan programs appear arbitrary and the rules are inconsistently applied. Differences in policies are experienced by individual students obtaining loans year to year, and among students receiving funds for the same program in the same year. The dissimilarity in policies creates difficulty for some students in obtaining loans, variances in the frequency of loan approvals, delays in obtaining loan funds, and differences in the nature of contacts during the life of the loan.

Origination Phase: Students are subject to significant differences in lending policies of banks and rules that may change from year to year based on the performance of the lender's student loan portfolio. Many lenders base their policies on the default rate of educational institutions, placing the student in a difficult position because the approval of a student loan may be more dependent on the school chosen than on the individual applying for the loan. Students who change lenders during their course of study may experience the same difficulty. Students also observe differences in the delivery of loan funds based on the disbursement procedure established by the lender. Some of these differences (such as the offering of electronic fund transfer or overnight mail services) can significantly impact the delivery date of funds.

Differences in guarantor policies create similar difficulties for the student borrower. For example, guarantors do not guaranty loans for all schools who request their services. Again, students may not experience any problem until they transfer to a different institution. In addition, some guarantors allow a new loan to be certified every 170 days, while others require a full year to elapse between loans. Students wanting to attend summer school programs may be unable to obtain loan funds due to this policy, sometimes resulting in unnecessary and costly delays in program completion.

Interim Phase: Students are affected primarily by lender policies, which can increase the chances for repayment of their loans. Since a lender is not required to contact borrowers about the terms of repayment until 120 days prior to the first payment due date, five (or more) years may elapse between the time students receive their original student loan and their first contact with the holder. Some lenders contact borrowers on a yearly basis to remind them of their loan obligation and provide them an easy method to update demographic information; however, these lenders are in the minority. Most students have no contact with their lender until repayment is due or the loan is sold. Even when attempts to contact them are made, information may not reach them because the address on file is out of date. As a result, the updating of new addresses becomes a cumbersome process, especially when loans have changed ownership. This lack of contact contributes to complexity in tracking loans, often resulting in failure to update key information and in subsequent default on the loan.

Repayment Phase: Some lenders have more liberal documentation policies than others or will work with the student to obtain required paperwork. Since students do not have control over deferment forms processing once the forms have been submitted to the appropriate certifying official, students may need help from lenders in order to complete the process. Some lenders are non-responsive to borrowers' requests for assistance and subsequently these loans go into default.

Effects on Schools

Different definitions and reporting requirements create the potential for financial liability based on incorrect loan certification, a significant training burden, increased operating costs by being forced to maintain parallel processing systems, uncertainty regarding loan approval, an unstable cash flow, and increased paperwork and personnel costs in other areas of the institution.

Origination Phase: To manage differences, schools spend considerable staff and computer time creating and maintaining parallel processing systems that meet guarantor specifications. Schools are very concerned about correct certification of loan applications in light of varying guarantor policy. Financial aid officers have volumes of information in their offices detailing the different policies of each agency with whom they do business. It is almost impossible for any individual staff member to fully understand all the policies. Most schools are unable to afford travel costs for staff members to attend guarantor training sessions, especially if that training is located out-of-state. As a result, the potential for financial liability due to errors in the certification process significantly increases.

Lenders add to the problems in origination by changing their lending policies from year to year. As a result, a school may certify applications only to have them returned weeks later because the lender no longer makes loans to a particular group of students, such as freshmen, or students in programs that last less than six months. This creates more work for the financial aid office and significantly impairs the school's cash flow due to delays in receipt of loan funds.

Interim Phase: The varying reporting requirements cause and increase administrative costs for the schools. For example, some guarantors feel that status confirmation reports collected every six months are too outdated, and require quarterly filing of the report. The staff time required to complete these reports in the 30 days mandated by regulation is significant. Some lenders require schools to complete additional reports because they lack confidence in the information from the guarantor. This redundancy increases institutional personnel and administrative costs in the financial aid area and the Registrar's Office.

Repayment Phase: The school is most significantly impacted by the guarantor's claim review and purchase policies--how stringently accounts are examined prior to default--which may potentially increasing the school's default rate and its chances of being eliminated from the Part B programs. The quality of servicing offered by the lender will have the same impact--nonaggressive attempts to collect the funds may place the school's continued participation in the loan programs in jeopardy.

Nonstandard Forms and Processes

Until the most recent reauthorization, each guaranty agency has been permitted to have its unique forms for application, deferment, status reporting and all other loan processing functions, causing confusion for students and schools. If the Department of Education is successful in standardizing the application and other forms required by the loan programs, this problem will be corrected. However, if guarantors are permitted to use supplemental forms to the standardized application or deferment forms, or if lenders are permitted to continue to require their own individual forms, students and schools will face the same problems as before.

Some guarantors have attempted to convert to a "paperless" processing system. Unfortunately, the development efforts, like forms development, were not coordinated, resulting in the guarantors developing totally different, incompatible data processing formats. The schools, in particular, see minimal benefit of the transition since they continue to deal with multiple computer formats and forms.

Effects on Students

Students are faced with multiple loan applications, multiple deferment forms and numerous status verification forms, and unnecessary duplication of information in order to update loans not all held by the same guarantor or lender.

Origination Phase: Students are confronted with different application forms for each guaranty agency. Processing will be delayed if a student unintentionally completes an application for the same lender they have utilized in the past but under a different guaranty, since new legislation requires that, whenever possible, a student should have only one lender and guarantor.

Interim Phase: The student must complete multiple information verifications or demographic updates. Some lenders and guaranty agencies require that all transactions be recorded on their specific forms and will not accept others, even though identical information is provided by the student. Students lose time in completing additional, unnecessary forms.

Repayment Phase: Deferment forms are guarantor-specific. Completion of an incorrect form frequently results in loans not being placed in deferment status and going into default unnecessarily.

Effects on Schools

Schools process multiple applications and repetitive submission of identical deferment data on separate, guarantor-specific deferment forms. They also must train staff on the operation of different computer systems offered by each agency. Schools bear the expense of installation of differing software programs, forcing operation of parallel processing systems.

Origination Phase: The financial aid officer must follow the certification process demanded by each guarantor's application. Each application may specify a different processing requirement, some requiring direct submission to the lender or guarantor by the school, others demanding that students submit the certified applications to the lender. Maintaining compliance with different specifications is very difficult.

Interim Phase: Schools are confronted with various status verification forms specific to each guaranty agency with whom they have guaranteed a loan or for whom they have completed a deferment form. Schools may be responsible for completing 15 or more of these forms twice a year. Each format is different, resulting in the consumption of a great deal of staff time and increased overall administrative costs. While new regulations will standardize the format of the forms, information required will remain guarantor- or lender-specific and multiple submission of information will still be required.

Repayment Phase: Schools are forced to deal with many different deferment forms to complete. If a student has multiple guarantors for prior loans, a school must provide identical deferment information on multiple forms for each student. The repetitive submission of identical information on a yearly basis is viewed as unnecessary.

Inadequate Data and Network Infrastructure

The exchange of information among students, schools, lenders and guarantors is critical to the efficiency and cost-effectiveness of the program, but no national centralized data base exists to facilitate communication. While the data base has been under consideration for years and was again mandated in the Higher Education Amendments of 1992, the Department of Education has still not implemented it. As a result, the Student Loan Marketing Association has begun developing its own national data base. Critics fear, however, that there will now be a proliferation of such data bases, none of which provide a single source for obtaining or updating information. In addition, telecommunications capability among the schools, lenders and guaranty agencies is inadequate, creating a program that is plagued by outdated or inaccurate information, potential program abuse, repetitive required submissions of information by schools and students, and unnecessary default costs.

Effects on Students

Students must contend with, repetitive submission of demographic and status information, an inability to readily determine the current owner of their loans, and unnecessary default due to the lack of information-sharing capability among the school, lender and guarantor.

Origination Phase: A student is not significantly impacted by this source of complexity during the origination phase of the loan.

Interim Phrase: There is no central system or single source to which all information can be provided and then disseminated. As a result, if a student has multiple lenders, a separate address change must be provided to each holder. In addition, the potential for failing to notify all holders, especially for a student with a significant outstanding balance and several lenders is significant.

Repayment Phrase: The student's information must be processed on a timely basis or the student will most likely default. Students complete multiple deferment forms which all contain the same information. Due to the volume of such forms received by lenders, there can be a significant delay in the processing and posting of the information. Students often send several duplicate forms because the lender fails to receive the original. These delays result in unnecessary submission of default claims through no fault of the student. Frequently, a student who has multiple loans will experience one loan being placed in a delinquent status while all others of the same type are deferred, theoretically impossible with loans of the same type. There is no system to cross-check information to prohibit this from occurring.

Student loans are typically sold as they enter repayment. Students have difficulties locating the holder of all of their loans if they have failed to receive the original sale

notification or lose track of their personal records. There is no single source that can locate the holder and provide the information to the borrower. Attempts to repay a loan become frustrated and unintentional default may result.

Effects on Schools

Schools must rely on sometimes faulty certification information, complete time-consuming financial aid transcripts and multiple Student Status Confirmation Reports, and certify deferment forms on an individual basis.

Origination Phase: The requirement to complete financial aid transcripts causes delays in aid processing. Completion of these requests is time consuming and increases administrative costs for the financial aid office. Waiting on the return of such forms from other institutions can delay the disbursement of funds to the students, delaying receipt of student fees.

Schools must rely on the accurate disclosure of prior enrollment history by the student in order for the aid transcript to be an effective tool. Too often, data are missing or students fail to provide correct information on their educational history. The school then miscertifies the loan application, resulting in potential financial liability to the school. There is no source that can verify the accuracy of the information provided.

Interim Phase: Schools must provide information to the many entities with whom they interact. Forced, repetitive submissions of identical information cost the schools staff time and increase administrative costs.

Repayment Phase: A deferment for a school's student may be applied to one loan with one lender, but not to any of the student's other loans. This unnecessary need to

supply and recertify deferment forms increases the administrative costs borne by the school.

NEXT STEPS

The sources of complexity outlined in this paper will provided the basis for the next steps in the study. Within the next month, the community will be asked to provide their reactions to strategies for improvement to address the six sources of complexity identified in this report. Results of the solicitation will be compiled and be used as the basis for a loan simplification symposium to be held April 5, in Washington, D.C. The symposium will explore the most promising strategies for addressing complexity in the programs. The Committee will then identify its preliminary recommendations, which will be discussed at a hearing in June, with the final report to be delivered to Congress no later than July 23, 1993.

APPENDIX A

GUARANTEED STUDENT LOAN PROGRAMS (GSLP) -- ANNUAL AND CUMULATIVE COMMITMENTS -- FY66 - FY91

	FISCAL YEAR	ANNUAL LOAN VOLUME: LOANS (THOUSANDS)	ANNUAL LOAN VOLUME: DOLLARS (MILLIONS)	PERCENT CHANGE FROM PRIOR FY: LOANS	PERCENT CHANGE FROM PRIOR FY: DOLLARS	PERCENT SHARE OF GSLP: LOANS	PERCENT SHARE OF GSLP: DOLLARS	AVERAGE LOAN: DOLLARS	CUMULATIVE LOAN VOLUME: LOANS (THOUSANDS)	CUMULATIVE LOAN VOLUME: DOLLARS (MILLIONS)	FISCAL YEAR
PLUS	1981	11	28	—	—	0.3	0.4	2,690	11	28	1981
	1982	27	67	145	139	1.0	1.1	2,525	38	95	1982
	1983	58	147	115	119	1.9	2.1	2,540	96	242	1983
	1984	74	194	28	32	2.2	2.5	2,643	170	436	1984
	1985	95	253	28	30	2.5	2.8	2,664	265	689	1985
	1986	92	241	-3	-5	2.5	2.8	2,634	357	930	1986
	1987	109	323	18	34	2.8	3.3	2,973	466	1,253	1987
	1988	178	541	63	67	3.9	4.6	3,040	644	1,794	1988
	1989	239	748	34	38	5.1	6.0	3,136	883	2,542	1989
	1990	273	877	14	17	6.1	7.1	3,210	1,156	3,419	1990
	1991	332	1,079	22	23	6.9	8.0	3,256	1,488	4,498	1991
SLS	1981	0	0	—	—	0.0	0.0	0	0	0	1981
	1982	13	31	—	—	0.5	0.5	2,350	13	31	1982
	1983	42	110	223	255	1.4	1.6	2,619	55	141	1983
	1984	67	175	60	59	2.0	2.2	2,629	122	316	1984
	1985	97	260	45	49	2.5	2.9	2,672	219	576	1985
	1986	106	279	9	7	2.9	3.3	2,634	325	855	1986
	1987	286	826	170	196	7.4	8.5	2,893	611	1,681	1987
	1988	716	2,018	150	144	15.9	17.1	2,817	1,327	3,699	1988
	1989	793	2,125	11	5	16.8	17.0	2,679	2,120	5,824	1989
	1990	614	1,706	-23	-20	13.7	13.9	2,778	2,734	7,530	1990
	1991	645	1,870	5	10	13.4	13.9	2,898	3,379	9,400	1991
GSLP	1966	89	73	—	—	100.0	100.0	828	89	73	1966
	1967	287	244	222	234	100.0	100.0	848	376	317	1967
	1968	490	428	71	75	100.0	100.0	874	866	745	1968
	1969	756	674	54	57	100.0	100.0	891	1,622	1,419	1969
	1970	863	811	14	20	100.0	100.0	940	2,485	2,230	1970
	1971	1,017	1,015	18	25	100.0	100.0	998	3,502	3,245	1971
	1972	1,201	1,274	18	26	100.0	100.0	1,062	4,703	4,519	1972
	1973	1,030	1,171	-14	-8	100.0	100.0	1,136	5,733	5,690	1973
	1974	938	1,139	-9	-3	100.0	100.0	1,215	6,671	6,829	1974
	1975	990	1,298	6	14	100.0	100.0	1,311	7,661	8,127	1975
	1976 *	1,299	1,828	31	41	100.0	100.0	1,408	8,960	9,955	1976 *
	1977	973	1,537	-25	-16	100.0	100.0	1,581	9,933	11,492	1977
	1978	1,085	1,959	12	27	100.0	100.0	1,806	11,018	13,451	1978
	1979	1,510	2,984	39	52	100.0	100.0	1,977	12,528	16,435	1979
	1980	2,314	4,840	53	62	100.0	100.0	2,091	14,842	21,275	1980
	1981	3,539	7,822	53	62	100.0	100.0	2,210	18,381	29,097	1981
	1982	2,787	6,235	-21	-20	100.0	100.0	2,237	21,168	35,332	1982
	1983	3,039	6,928	9	11	100.0	100.0	2,279	24,207	42,260	1983
	1984	3,403	7,916	12	14	100.0	100.0	2,326	27,610	50,176	1984
	1985	3,833	8,913	13	13	100.0	100.0	2,326	31,443	59,089	1985
	1986	3,610	8,570	-6	-4	100.0	100.0	2,374	35,053	67,659	1986
	1987	3,876	9,736	7	14	100.0	100.0	2,512	38,929	77,395	1987
	1988	4,513	11,816	16	21	100.0	100.0	2,618	43,442	89,211	1988
	1989	4,713	12,466	4	6	100.0	100.0	2,645	48,155	101,677	1989
	1990	4,496	12,291	-5	-1	100.0	100.0	2,734	52,651	113,968	1990
	1991	4,815	13,500	7	10	100.0	100.0	2,804	57,466	127,468	1991

NOTES: (1) THE TERM "COMMITMENTS" EXCLUDES CONSOLIDATION LOANS AND PLUS & SLS REFINANCED LOANS AUTHORIZED UNDER THE 1986 AMENDMENTS.
(2) TOTALS MAY NOT ADD DUE TO ROUNDING. ACTUAL FIGURES USED TO COMPUTE THE AVERAGE LOAN.

* FY66 - FY75 ARE JULY - JUNE FY'S. FY76 INCLUDES TRANSITION QUARTER (JULY '75 - SEP '76). FY77 - FY91 ARE OCT. - SEP. FY'S.

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GUARANTEED STUDENT LOAN PROGRAMS (GSLP) – ANNUAL AND CUMULATIVE COMMITMENTS – FY66 - FY91

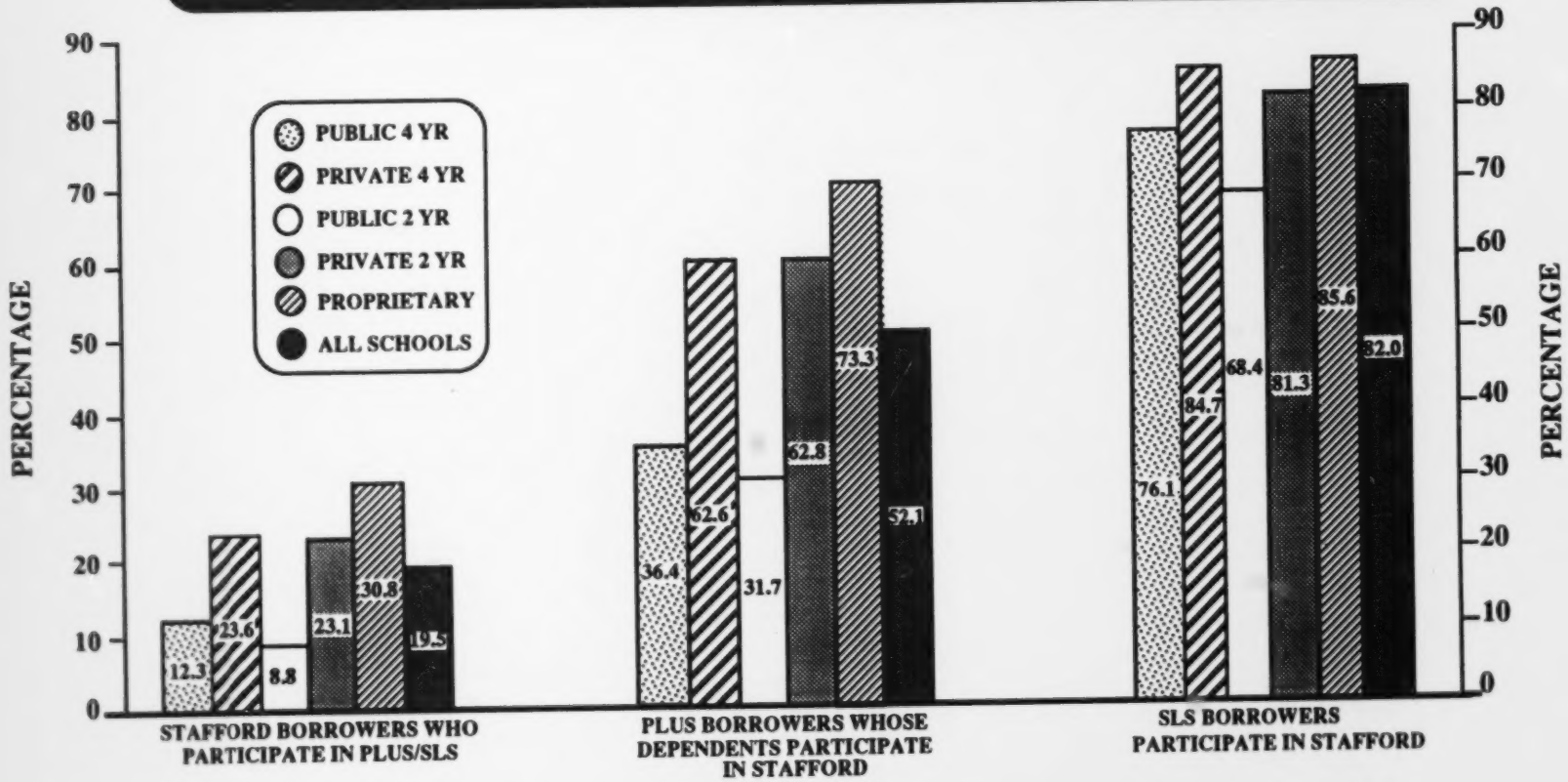
	FISCAL YEAR	ANNUAL LOAN VOLUME: LOANS (THOUSANDS)	ANNUAL LOAN VOLUME: DOLLARS (MILLIONS)	PERCENT CHANGE FROM PRIOR FY: LOANS	PERCENT CHANGE FROM PRIOR FY: DOLLARS	PERCENT SHARE OF GSLP: LOANS	PERCENT SHARE OF GSLP: DOLLARS	AVERAGE LOAN: DOLLARS	CUMULATIVE LOAN VOLUME: LOANS (THOUSANDS)	CUMULATIVE LOAN VOLUME: DOLLARS (MILLIONS)	FISCAL YEAR
FISLP	1966	0	0	—	—	0.0	0.0	0	0	0	1966
	1967	0	0	—	—	0.0	0.0	0	0	0	1967
	1968	83	67	—	—	16.9	15.7	806	83	67	1968
	1969	248	217	199	224	32.8	32.2	876	331	284	1969
	1970	365	354	47	63	42.3	43.6	968	696	638	1970
	1971	482	484	32	37	47.4	47.7	1,005	1,178	1,122	1971
	1972	692	708	44	46	57.6	55.6	1,024	1,870	1,830	1972
	1973	599	655	-13	-7	58.2	55.9	1,093	2,469	2,485	1973
	1974	507	612	-15	-7	54.1	53.7	1,207	2,976	3,097	1974
	1975	505	661	-0	8	51.0	50.9	1,310	3,481	3,758	1975
	1976 *	522	740	3	12	40.2	40.5	1,417	4,003	4,498	1976 *
	1977	322	500	-38	-32	33.1	32.5	1,556	4,325	4,998	1977
	1978	268	473	-17	-5	24.7	24.1	1,766	4,593	5,471	1978
	1979	277	541	3	14	18.3	18.1	1,954	4,870	6,012	1979
	1980	236	504	-15	-7	10.2	10.4	2,136	5,106	6,516	1980
	1981	189	427	-20	-15	5.3	5.5	2,260	5,295	6,943	1981
	1982	100	234	-47	-45	3.6	3.8	2,338	5,395	7,177	1982
	1983	54	134	-46	-43	1.8	1.9	2,471	5,449	7,311	1983
	1984	16	41	-70	-69	0.5	0.5	2,499	5,465	7,352	1984
STAFFORD	1966	89	73	—	—	100.0	100.0	828	89	73	1966
	1967	287	244	222	234	100.0	100.0	848	376	317	1967
	1968	407	361	42	48	83.1	84.3	888	783	678	1968
	1969	508	457	25	27	67.2	67.8	899	1,291	1,135	1969
	1970	498	457	-2	0	57.7	56.4	918	1,789	1,592	1970
	1971	535	531	7	16	52.6	52.3	992	2,324	2,123	1971
	1972	509	566	-5	7	42.4	44.4	1,113	2,833	2,689	1972
	1973	431	516	-15	-9	41.8	44.1	1,196	3,264	3,205	1973
	1974	431	528	0	2	45.9	46.4	1,225	3,695	3,733	1974
	1975	486	637	13	21	49.1	49.1	1,312	4,181	4,370	1975
	1976 *	776	1,088	60	71	59.7	59.5	1,401	4,957	5,458	1976 *
	1977	651	1,037	-16	-5	66.9	67.5	1,593	5,608	6,495	1977
	1978	817	1,485	25	43	75.3	75.8	1,819	6,425	7,980	1978
	1979	1,233	2,443	51	65	81.7	81.9	1,982	7,658	10,423	1979
	1980	2,078	4,335	69	77	89.8	89.6	2,086	9,736	14,758	1980
	1981	3,339	7,366	61	70	94.3	94.2	2,206	13,075	22,124	1981
	1982	2,646	5,901	-21	-20	94.9	94.6	2,230	15,721	28,025	1982
	1983	2,885	6,537	9	11	94.9	94.4	2,266	18,606	34,562	1983
	1984	3,246	7,506	13	15	95.4	94.8	2,312	21,852	42,088	1984
	1985	3,641	8,401	12	12	95.0	94.3	2,307	25,493	50,489	1985
	1986	3,413	8,050	-6	-4	94.5	93.9	2,359	28,906	58,519	1986
	1987	3,482	8,587	2	7	89.8	88.2	2,466	32,388	67,106	1987
	1988	3,619	9,257	4	8	80.2	78.3	2,558	36,007	76,363	1988
	1989	3,682	9,593	2	4	78.1	77.0	2,606	39,689	85,956	1989
	1990	3,609	9,708	-2	1	80.3	79.0	2,690	43,298	95,664	1990
	1991	3,838	10,551	6	9	79.7	78.2	2,749	47,136	106,215	1991

NOTES: (1) THE TERM "COMMITMENTS" EXCLUDES CONSOLIDATION LOANS AND PLUS & SLS REFINANCED LOANS AUTHORIZED UNDER THE 1986 AMENDMENTS.
(2) FISLP DATA DOES NOT INCLUDE CONSOLIDATION LOANS MADE BY SALLIE MAE FROM NOV. '81 THRU OCT. '83. TOTAL WAS 32 THOUSAND LOANS FOR $390 MILLION.
(3) TOTALS MAY NOT ADD DUE TO ROUNDING. ACTUAL FIGURES USED TO COMPUTE THE AVERAGE LOAN.

* FY66 - FY76 ARE JULY - JUNE FY'S. FY76 INCLUDES TRANSITION QUARTER (JULY '76 - SEP '76). FY77 - FY91 ARE OCT. - SEP. FY'S.

APPENDIX B

PERCENTAGE OF STAFFORD, PLUS, AND SLS BORROWERS PARTICIPATING IN MORE THAN ONE GSL PROGRAM BY TYPE OF INSTITUTION ATTENDED FY 1991



Source: Data represent all borrowers whose loans were guaranteed between 10/1/90 and 9/30/91, excluding cancellations. Total number of Stafford borrowers upon which percentages are based as follows: public 4 year = 1,145,643; private 4 year = 857,660; public 2 year = 268,688; private 2 year = 58,995; proprietary = 649,680. Total number of PLUS borrowers: public 4 year = 123,796; private 4 year = 91,295; public 2 year = 12,918; private 2 year = 6,017; proprietary = 56,544. Total number of SLS borrowers: public 4 year = 126,664; private 4 year = 172,262; public 2 year = 28,758; private 2 year = 12,188; proprietary = 186,000. Data were derived from the FY 1991 guaranty agency Stafford and PLUS/SLS Tape Dump records by the U.S. Department of Education, OPE/OSFA/DPPD, Guaranteed Student Loan Branch, Analysis Section.

Note: In order to compare participation between PLUS (parent borrowers) and Stafford/SLS (student borrowers), students whose parents borrowed on their behalf under PLUS were tracked to determine who borrowed under Stafford and SLS.

Prepared by: U.S. Department of Education, OPE/OSFA/DPPD, Guaranteed Student Loan Branch, Analysis

Appendix C
Part B Program Interest Rates (Subsidized and Unsubsidized) by Borrower Eligibility

Interest Rate	Borrower Eligibility
7%	Stafford borrower with a period of enrollment prior to 1/1/81.
9%	New Stafford borrowers with periods of enrollment between 1/1/81 and 9/12/83.
8%	New Stafford borrowers with periods of enrollment between 9/13/83 and 6/30/88.
8/10%	New Stafford borrowers with periods of enrollment on or after 7/1/88 for which the first disbursement was made prior to 10/1/92.
Annual variable rate based on 91-day T-bills auctioned prior to 6/1 plus 3.10% with an interest rate cap of 9%.	New Stafford borrowers with a first disbursement made on or after 10/1/92.
14%	PLUS/SLS loans disbursed on or after 10/1/81 but prior to 11/1/82.
12%	PLUS/SLS loans disbursed between 11/1/82 and 6/30/87.
Annual variable rate with a cap of 12% based on the 52-week T-bill auctioned prior to 6/1 plus 3.25%.	PLUS/SLS loans disbursed on or after 7/1/87 and prior to 10/1/92.
Annual variable rate with a cap of 11% (SLS) or 10% (PLUS) based on 52-week T-bill auctioned prior to 6/1 plus 3.10%.	PLUS/SLS loans disbursed on or after 10/1/92.

Annual variable rate with rate of 12% based on the average of 91-day T-bill auctioned during the 12 moths prior to 12/1 plus 3.75%	PLUS/SLS fixed rate loans refinanced on or after 10/1/87 and before 7/1/87 to obtain a variable rate.
Annual variable rate with a cap of 12% based based on the 52-week T-bill auctioned prior to 6/1 plus 3.75%.	PLUS/SLS loans made prior to 7/1/87 and refinanced on or after 7/1/87 to secure a variable rate.
Weighted average interest rate.	PLUS/SLS loans made prior to 7/1/87 and refinanced to obtain a single payment and ten-year term.
Same rate and cap as loans informally combined by lender.	PLUS/SLS variable rate loans with the same interest rates combined to secure a single payment and a ten-year term.
Weighted average interest rate with a minimum rate of 9%.	All Consolidation loans.

APPENDIX D

Title IV Annual Loan Limits by Program, Length of Enrollment, and Year in School

Undergraduate										Graduate
	Enrollment	1			2			3+			All Years
Program		1/3	2/3	Full	1/3	2/3	Full	1/3	2/3	Full	
Stafford		$ 875	$1750	$2265	$1175	$2325	$3500	$1825	$3625	$5500	$8500
SLS		$1500	$2500	$4000	$1500	$2500	$4000	$1675	$3325	$5000	$10,000
Perkins		$3,000									$5,000
PLUS		Cost of attendance minus other aid received (all levels)									
Consolidation		$7,500 indebtedness required to qualify									

APPENDIX E
DEFERMENT CATEGORY BY PROGRAM AND DISBURSEMENT DATES

		Stafford, Unsubsidized Stafford and SLS Loans*		PLUS Loans*				Consolidation Loans*			
Deferment Category	Total Length	Pre 7/1/87 Borrower	Prior Borrower 7/1/87-6/30/93	New Borrower 7/1/93	Loans Prior to 8/15/83	Pre-7/1/87 Borrower	Prior Borrower 7/1/87-6/30/93	New Borrower 7/1/93	Borrower Consolidated Prior to 7/1/93		Borrower Consolidated on/after 7/1/93
Full-time School	No Limit	X	X	X	X	X	X	X	X		X
Half-time School	No Limit		X	X			X	X	X		X
Graduate Fellowship	No Limit	X	X	X	X	X	X	X	X		X
Rehabilitation Train.	No Limit	X	X	X	X	X	X	X	X		X
Armed Forces or Public Health Services	36 Months	X	X		X						
Peace Corps. ACTION Programs Volunteer Service for tax-exempt organization	36 Months	X	X		X						
National Oceanic and Atmospheric Admin.			X								
Teaching in designated teacher shortage area	36 Months		X								
Internship/Residency	24 Months	X	X		X						
Temporarily totally disabled borrower and/ or caring for disabled spouse or dependent	36 Months	X	X		X	X	X		X		
Unable to find full-time employment	24 Months	X	X		X	X	X		X		
	36 Months			X					X		X
Parental Leave	6 Months	X	X								
Mother of pre-school child (re)entering workforce	12 Months		X								
Economic Hardship	36 Months			X			X				X

*PLUS, SLS loan deferments are not subsidized by the Federal government. Consolidation loans made prior to 7/1/93 will not be subsidized; Consolidation loans made after that date will receive Federal subsidy.

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